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UNCLAS SECTION 01 OF 02 BRASILIA 001384

SIPDIS

STATE FOR WHA/BSC, EB/TPP/MTA/IPC SWILSON, INL BWILLIAMSON  
STATE PASS TO USTR FOR SCRININ, LYANG AND BPECK  
USDOC FOR  
4322/ITA/MAC/WH/OLAC/WBASTIAN/JANDERSEN/DMCDO UGALL/ADRISCOLL  
USDOC FOR 3134/USFCS/OIO/EOLSON/DDEVITO  
TREASURY FOR OASIA/SEGAL  
NCS FOR DEMPSEY

E.O. 12958: N/A

TAGS: [KIPR](#) [KCRM](#) [PGOV](#) [ECON](#) [BR](#) [IPR](#)

SUBJECT: BRAZIL ARRESTS MAJOR TRAFFICKER OF PIRATED GOODS

Refs: A) 2003 Sao Paulo 2199 B) 2003 Brasilia 3564

1. SUMMARY: Brazilian Federal Police arrested June 1 one of the country's biggest pirated goods smugglers, Law Kin Chong, and his lawyer Pedro Lindolfo for corruption, conspiracy to commit bribery, conspiracy involving organized crime (racketeering) and disrupting the functioning of a Parliamentary Investigative Commission (CPI). Chong, through his lawyer, allegedly attempted to bribe Piracy CPI President Deputy Luiz Medeiros (PL-SP) with US\$1.5 million to avoid being mentioned in the CPI's final report. The lawyer was apprehended in Medeiros' Sao Paulo office offering the deputy US\$75,000 as the first installment of the bribe. Both Lindolfo and Chong were transferred to Brasilia June 3 for security reasons and await formal hearings. Chong, owner of three popular shopping malls in downtown Sao Paulo, is said to be the head of a contraband mafia that is responsible for the trafficking of a significant portion of pirated goods in Brazil. The Piracy CPI has targeted Chong for months, and took him in for questioning in November 2003 (ref A). End Summary.

2. The Chamber of Deputies' Parliamentary Investigative Commission on Piracy (CPI) scored a major bust on Tuesday, June 1 with the arrest of Law Kin Chong, a Chinese businessman (naturalized Brazilian). Chong owns three shopping centers in downtown Sao Paulo selling mostly pirated goods and is thought to lead a major smuggling ring in Brazil. According to press reports, Chong's lawyer was arrested in the Sao Paulo office of CPI President Deputy Luiz Medeiros on June 1 with the US\$75,000 he offered to Medeiros as the first installment of a US\$1.5 million bribe to keep Chong out of the CPI's soon-to-be-released final report. Chong himself was arrested an hour later in a Sao Paulo parking lot, reportedly trying to flee to Paraguay.

3. Medeiros told the press that the Federal Police had been monitoring exchanges among Chong, his associates and Medeiros for over a month, initiated when Chong offered to assist the CPI by providing information. Medeiros arranged a meeting with Chong's lawyer during which the bribe was offered in the presence of Medeiros' security guard, a Federal Police officer. Medeiros did not refuse the bribe, alerted the Federal Police, and had subsequent meetings in Sao Paulo with Chong and/or his associates that were taped by the Federal Police. Chong and Medeiros reached a final agreement May 29 for US\$1.5 million to be paid in five installments.

4. After the June 1 arrests in Sao Paulo, the two suspects were transferred to Federal Police custody in Brasilia, reportedly for security reasons. Police seized computers, documents and millions in U.S and Brazilian currency from Chong's accounting office and currency-exchange business, all to be examined at Federal Police headquarters in Brasilia. The lawyer handling Chong's defense told journalists that he would request the repeal of Chong's arrest and seek a writ of habeas corpus (injunction or stay) if the request is denied.

5. Chong has been the target of several investigations over the last seven years, according to press accounts. Widely believed to be the biggest smuggler in the country, he reportedly has ties to authorities throughout the government and was involved with judge Rocha Mattos, currently under investigation for corruption, as well as federal police officials arrested during Operation Anaconda, a big corruption sting operation carried out last year (ref B, para 9). He is also under investigation for money laundering and tax evasion. The CPI targeted Chong last year, raiding two of his shopping centers and bringing him in for questioning in November 2003. Despite closure of the stores ordered by the Department of Investigations of Organized Crime (DEIC) following the raid, Chong obtained court orders forcing the reopening of the stores and the return of all seized merchandise. Chong was also quickly released (ref A). The CPI had scheduled a public hearing on their final report for June 3, but delayed the event until June 8 in view of the Chong arrest.

6. Comment: The timing of the arrest serves to highlight the work of the CPI as it nears closure later this month. It will

likely be more difficult for Chong to quickly and fully escape unscathed from this arrest due to the CPI's spotlight of public scrutiny and the hard evidence against him, but he has shown he has the wherewithal to get high-level officials to weigh in heavily in his favor. Some Sao Paulo IPR contacts have already expressed doubt that he will remain in custody or that the charges against him will stick. Mission will continue to follow the case as well as developments regarding the CPI. End comment.

17. This message was coordinated with Consulate Sao Paulo.

HRINAK